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# The Role of Agency Banking in Promoting Financial Inclusion: Descriptive Analytical Evidence from Tanzania

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**Abstract**
The objective of this paper was to assess the leverage provided by agency banking in promoting the financial inclusion in Tanzania. The study was descriptive in nature and utilized primary data collected from bank agents' outlets in Dar es Salaam. Overall, the study was very important as it tells how financial inclusion in Tanzania has been accelerated by use of agency banking practices.The analytical results of the study show that agency banking has helped to simplify banking service by reducing distance for customers to reach service point. The study has also found that liquidity problem is not a big concern as the agents' operation are properly scrutinized and monitored by the parent banks to avoid cash shortage crisis and minimizes security issues. It is also found in the study that agency banking costs are reported to be lower compared to those of traditional banking services. It is therefore concluded, from this study, that greater geographical coverage brought about by agency banking is a stronger promoter of financial inclusion because services follow people closer to where they leave and hence reduce the travelling costs and other hassles involved like time wasted in long queues at bank branches. Agency banking model is therefore a success as regards to deepening financial inclusion. However, because the concept of agency banking is now widespread banks' practice to risk management should be emphasized so as to avoid entering into agency contract with bank agents whose credentials are doubtful. In addition to that efforts have to be made to increase the number of outlets providing bank agency services so as to achieve a greater geographical coverage. Apart from that all commercial banks offering agency banking services should limit operational costs on bank agents in order to avoid the increase in cost of services to customers. Concerning security, emphasis should be put on all agency banking outlets and more frequent monitoring to be carried out as discussed in the previous section. Lastly, financial education should be provided to help customers understanding the operations of agents and assure the security of their money.
**Key words*:*** Agency, banking, security, cost, Geographical coverage, financial inclusion

## 1. Introduction

According to GSMA, (2014), Tanzania is one of the least developed countries putting much effort to develop strong foundation which improves financial inclusion via banking agents in an attempt to comply with the Bank of Tanzania. GSMA (2014) traces back financial inclusion roots back when, the Bank of Tanzania (BOT) started in 2008 after introduction of mobile money technology. GSMA report identifies absence of the legislation of national payment systems as a major deterring factor in digital financial inclusion. Following the improvement of financial market in Tanzania in recent years, the BOT has made serious efforts developing a legal and regulatory framework to bring about sufficient legal assurance and consistency to facilitate the sustainable stability of mobile money market, support the improvement of financial inclusion, and take into account the customers' security. Apparently, the BOT has put more efforts on developing the framework for financial inclusion known as (NFIF) that describes the mobile money's role as a crucial enabling tool of financial inclusion.

According to the BOT Governor, Tanzania has been in a front line to support financial inclusion in sub-Saharan Africa and according to Global Microscopic Surveys (2014, 2015) Tanzania rank 6th globally in creating friendliest environment for financial inclusion initiatives. The survey reveals that financial inclusion has successfully grown and extends its operations to include institutions such as banks, businesses, non-bank financial institutions and non-governmental organizations (NGOs). This has squarely boosted the outreach of underserved and those public members not covered by traditional channels of offering financial service such as banking services.

Finscope (2013) report reveals that about 76% of the Tanzania population is extended with financial services the coverage which is higher by about 44% of the level attained in 2009. This increase of financial service level is associated with the introduction of agent banking and participation of mobile phones companies in offering financial services for instance the emergence of M-Pesa, TiGo Pesa, and Airtel Money. After outshining financial inclusion targets of 2014, BOT through the National Financial Inclusion Framework (NFIF 2014/17), set a new target of reaching about 80% of adult population to get formal financial services using a financial access point. During the first quarter of 2015/2016 fiscal year BOT set a target of having at least 70% of the population living within five kilometers of a financial access point by 2017.

World Bank report (2014) shows that in third world countries for every 100 adults about 27 of them receive the wage and about 41% of those who receive the wage do so though bank accounts. When you compare this with developed countries, the report shows that, that 52% of adults these countries receive wages with 86% of them receiving the wages through their accounts. According to the same report the common three East African Countries (Kenya, Tanzania and Uganda) are the only developing countries which make the payments of their agricultural products through bank accounts. In as far as Tanzania is concerned; the report reveals that, about 52 per cent of adults receive payments for selling their agricultural products. While 13 per cent of these receive their payments through their bank accounts, 12 per cent of them receive the payments through M-Pesa, TiGo Pesa, Airtel Money and through other mobile money services.

Similarly, according to World Bank report (2014), in Tanzania 14 per cent of adults pay water, electricity and other utility bills and one third of them make such payments electronically via mobile phones. It is also reported of 57 per cent of adults who send or receive domestic remittances about 50% of them perform this transaction through a mobile account and another 20 per cent send or receive domestic remittances over the counter. However, it is not astonishing that the most common mode of sending or receiving domestic remittances is through mobile phones because a greater number of Tanzanian adults own mobile phones.

On the other hand Financial Stability Report of 2015 highlights the growth of the banking sector in terms of deposits and assets. This growth is supported by conducive macroeconomic environment. The report shows that the total assets growth went up by 11.4 percent as of March 2015, while bank deposits rose up by 13.9 percent. Meanwhile, the sector reported 16.4% increase of loans, advances and overdrafts, which accounted for 53.0 percent of total assets.

The report indicates several factors which influenced largely financial sector growth. Among these factors include expansion of branch network, agent banking, and emergence and increase in interoperability among banks, SACCOS and Mobile Companies who offer financial services. This has largely promoted the financial inclusion in Tanzania. All these initiatives are followed by agency banking; as banking for the underserved. According to World Bank (2014) provision of banking services to remote areas or rural areas, mainly comprised of low value accounts, held by poor rural population, is considered significantly costly to banks. Extending banking services to this group of underserved population, possibly through bank branches which are normally situated at district levels, may also be equally costly to customers who are required to travel to reach bank branches. This increases the limitations of financial inclusion which needs to be solved via a financial innovation like banking agency that will drastically reduce the cost of getting financial services to all customers who live in remote areas not easily covered by traditional banking services.

Agency Banking in Tanzania is mainly a common phenomenon in only 11 banks including CRDB Bank, Equity Bank, KCB Bank, Access Bank, NMB Bank, DCB Bank, TPB Bank, Advanc Bank, Amana Bank, Efatha Bank and Finca. The BOT (2014) report identifies 3,431agency banks countrywide with CRDB Bank's Fahari Huduma controlling slightly over 50% of the total available bank agents which area basically located in urban centers. According the report, as of March 2016, most available bank agents (about 35%) are in Dar es Salaam followed by Arusha with market share of 8.5% and then Mwanza 8.39 %.

On other hand, BOT (2015) shows that, bank deposits and withdrawals, through bank agents, have been increasing since 2014 .According to the report deposits and withdrawals have increased by over 200% and 400% respectively between January 2015 and end of January 2016. This is an impressive trend which virtually supports the growth of financial inclusion. This growth can also be associated with the seriousness and efforts made by bank of Tanzania towards supporting the operations of bank agents which are regulated by the Guidelines on Agent Banking for Banking Institutions of 2013. Following these discussions it is realized that the agency banking has been a successful operation in Tanzania for just three years of its inception and that financial inclusion has also been promoted through these operations.

This paper therefore tries to examine the determinants of bank agency which promote financial inclusion in Tanzania. More specifically, the paper evaluates the extent to which geographical coverage of agency banking; security concerns associated with agency banking, reduction of financial services costs and agency liquidity have facilitated the promotion of financial inclusion.

The rest of the paper is organized as follows. The next section contains a brief review of related literature followed by a section which presents the methodology. The following section is covers the analytical part of the paper and findings and the last section discusses the main conclusions and some economic policy recommendations derived from the analysis

## 2. Related Literature

Agency banking development dates back to 1999 in Brazil. The lesson from Brazil has been very helpful across the world especially for those countries which allow contracting with agents, (CGAP, 2011). An agent bank a business entity approved by the central banks to do all banking business on behalf of the commercial bank. Commercial banks are responsible to train bank agents on basic skills of banking business. In agency banking all banking services such as receiving deposits, withdrawing cash, transferring funds, bills payments, inquiry about bank balances etc. are offered by the employee of the banking agent instead of the parent bank teller. According to CGAP, (2011) parent commercial banks have a duty to make sure that banking agents have all working bank facilities such as point-of-sale (POS) and reader, mobile phones, barcode scanner for scanning bills, PIN number for customers identification and in some cases personal computers connected to banks' servers.

Agency banking as an expansion strategy borrows its concept from branchless banking model used for delivering financial services without reliance on bank branches as depicted by Ivatury et al (2006). According to the authors agent banking represents less cost alternative to traditional banking through the use of common delivery channels such as retail outlets, mobile phones, internets and ATMs. In agent banking third parties are involved in doing all banking activities usually performed by the banks' officers. The authors further show that agency banking are beneficial to the clients because it lowers transaction cost by bringing services closer to homes to serve transport cost to reach bank branches. According to the authors banking agency also allow customers to enjoy longer opening hours since this business operates for longer hours than banks and reduces longer queues. .

A study by Kitaka (2001) shows that the operation of banking agents relieves the commercial banks from attending long queues at their branches and, therefore, increases the convenience of serving their customers. In other developing countries' financial institutions agents banking is used to reach the business segment which is geographically located away from their usual business centers. According to Kitaka (2001) serving rural area clients is significantly expensive for banks and other financial institutions because the volume of transaction is not large enough to cover the cost of establishing a bank branch. The study concluded that, in a situation where the establishment of a bank branch is economically not viable, banking agents may serve so much these segment of underserved population at a relatively lower operating cost. These findings are supported by Adiera, (1995) who argued that, clients with lower level of income prefer more to get their banking services closer to the local areas where they live than travelling to distant areas to get such services at bank branches which are technologically sophisticated.

In a similar vein of arguments Wainaina, (2011) considers long distance between the bank branches and the rural homes as one of the genuine reasons which can be linked to poor financial inclusion in remote and rural areas. The author claims that it may be cost ineffective for customers to travel to a distant bank branch only to make bank transactions whose cost may be closer to the cost of transport and upkeep. To these kinds of customers agency banking becomes of paramount importance.

Concerning the security issues of the agent banking, studies such as Collins et al , (2012) and Stephens and Kevin, (1998) confess that agency banking doesn't go without the security risk although such risks may be reduced by avoiding holding too much cash at once. For instance Stephens and Kevin, (1998) narrate how things work in Brazil. According to them, in Brazil all deposits received from customers by employees of the agent banks should immediately deposit the same to the customers' bank branch before the end of the business day so as to limit the unnecessary accumulation of cash which may attract robbery. According to the study of four countries done by Collins et al, (2012) technical defaults such as failure of functioning of the equipments during transaction are not considered as serious problems by customers in the agency banking and wrong transactions like making a mistake in sending money to a wrong person and paying bills to a wrong recipient are common mistakes which do not cause clients to consider the agents banking as the riskier.

According to Kinyanjui (2011), the banks in Tanzania have entered into agency banking very aggressively to take advantage of cost factor and easy accessibility of the banking services by their customers. However a good number of the banks and other financial institutions think that a lot of agents do not have capacity to hold larger sums of cash because they worry security issues. This ultimately affects the customers who sometimes require larger sums of money

Gardeva and Rhynea (2011) in their survey show that cost structure of the agent banking and branching costs are among the key obstacles facing development of financial inclusion. The authors insisted that larger cost of establishing bank branches in remote and rural areas goes hand to hand with infrastructural problems such as roads and poor supply of electricity.

According to Gardeva and Rhynea (2011) such obstacles can be drastically reduced by agency banking. This may allow banks and other financial institutions to get into remote areas which can be relatively too expensive because they would otherwise establish their branches which involve larger buildings and other infrastructures.

Several previous studies have demonstrated the role of agency banking in promoting financial inclusion. Anyanzwa (2012), in the study of Brazil, showed that, in 2008, agents transacted 75% of the volume and 70% of the value of total bill payments. The study further showed that, in Brazil, rural agents transact more deposits and withdrawals as a percentage of total transactions (38%) than their urban counterparts (8%). Evidence from Christen, Lauer, Lyman & Rosenberg, (2011) shows that financial inclusion plays a crucial role in reducing household economic downturn, increases household access to easy financial services and in general improves the poverty status of the household

Demirgüc-Kunt and Klapper (2013) in their multi-country study analyzed the use of financial services in 148 countries and found that income difference among countries and among individuals within their countries influence the level of financial inclusion.

Another study by Celina (2012) in Peru reports a monthly transaction volume of approximately 3-8 million. For instance, in 2010, below 50% of all financial transaction in Peru were done via bank branches while 36% of the transactions were done through automated teller machines and point of sale terminals. A similar study conducted in Columbia by Collins et al (2012) showed that, in Colombia, during 2011, most of the payments such as utility bill payments, loan repayment and official government payments like taxes are made via agents banking. The study suggests the implementation of agent banking to be a gradual process. These findings are consistent to Celina (2012) who conducted a trend study for Mexico, Brazil, Peru and Colombia

Generally the literature reviewed shows that the agents banking is a tool of improving the financial inclusion and benefits both commercial banks and the bank customers. Firstly, it serves commercial banks by avoiding operating costs for establishing the bank branches. Likewise, the banking agency reduces the costs of customer travelling to reach the bank branches and increases the convenience of getting financial services.

## 3. Methodology and Data

The objective of this paper was to assess the leverage provided by agency banking in promoting the financial inclusion in Tanzania. The study is descriptive in nature and its results may be used in addressing the financial inclusion challenges. In other words, the results can be used in improving efficient and effective access to financial services among Tanzanian community. Primary data was collected from banks that offer agent banking in Tanzania through administered questionnaires and interviews.

The study was conducted in Dar es Salaam urban area purposely focused on three banks namely CRDB Bank, KCB Bank, and Equity Bank. The choice of these banks was based on the fact that the banks have bank agents sparsely located across the region. In this study only bank agents which are engaged in bank agency business for the period of at least two years were considered because these are believed to have gained enough business experience for them to identify the critical business challenges and manage risk at all costs. The major part of the data was collected through questionnaires but interviews were also done so as to use the information obtained from interviews to compare them with those obtained through questionnaires.

Reliance was put on primary data rather than secondary data which would be challenging to collect because small entrepreneurs who engage in agency banking are poor in keeping records or do not keep records at all as supported by Nchimbi (2007). A total of 150 questionnaires were administered and individual business approval was sought before embarking on the administration of the questionnaires. The response rate was 77% with 115 questionnaires returned and well filled. Data was analyzed using SPSS and presented using frequency distribution table, pie charts and bar charts.

## 4. Findings and Discussion

### 4.1 Status of Agent Banking and Financial Inclusion

The analysis started by describing the status of the bank agents and financial inclusion in Tanzania. Respondents were asked to determine the age of their service outlets (bank agents), and the rate of customers' response to agency banking services. To determine the age of the bank agents the respondents were asked to indicate the period since they have started offering agency banking services. The results in chart 1 show that about 83% of the banks have been offering the agency banking services for more than two years. This shows that most banks started implementing agency banking services immediately after the enactment of the BOT Act (2008) that was passed in promoting and influencing financial inclusion and furthermore allowed banks to start using agents to deliver financial services.

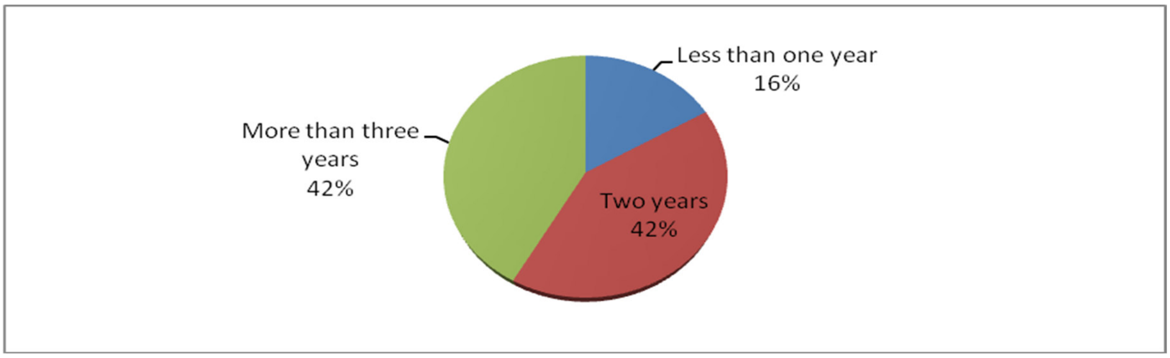


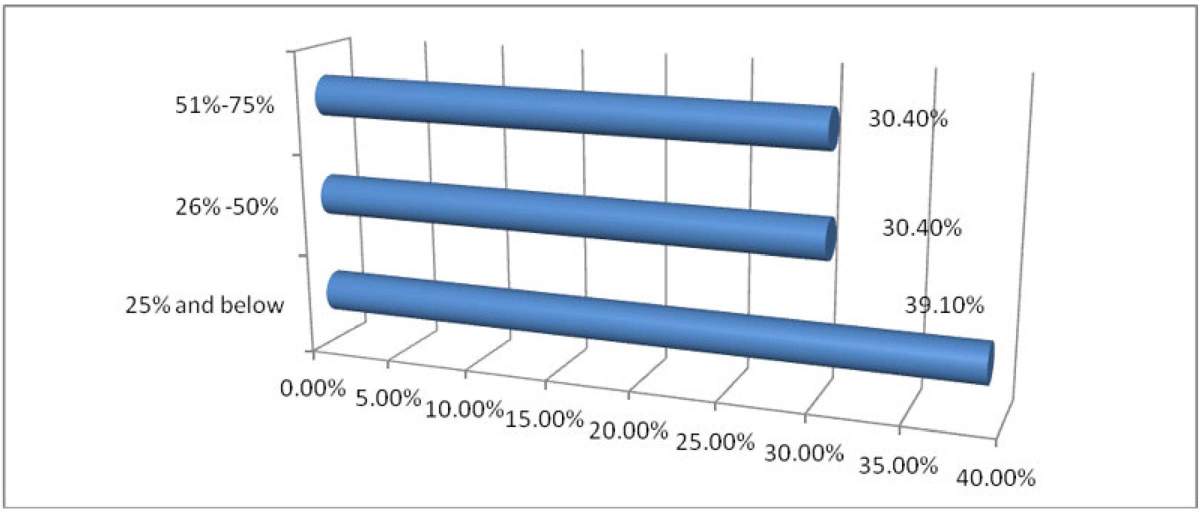

Chart 1 Age of the Agent Banks

The study also wanted to get an insight of how customers rank agency banking services. To get the insight bank agents were asked to reflect the response of the customers on the provision of their services. Findings on table 1 show that there was a positive response from customers as about 62% of the respondents showed at least a good response about the growth of agency banking in terms of cash withdrawals, deposits, loan applications and the general increase on influx of customers.

Table 1 Customer's Response to Agency Banking Services

| | | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Valid | Very good | 32.2 | 32.2 |
| | Good | 30.4 | 62.6 |
| | Satisfactory | 23.5 | 86.1 |
| | Poor | 7.0 | 93.0 |
| | Very poor | 7.0 | 100.0 |
| | Total | 100.0 | |

To identify the status of financial inclusion the bank branch managers visited were asked to indicate the percentage of accounts opened that can be attributed to agent banking. Graph 1 below shows that about 39% of the respondents said below 25% of the accounts opened in their banks are attributed to agent banking while 30% of the respondents reported that between 26% to 50% of the accounts they opened are attributed to agent banking and the remaining 30% said that between 51 % to 75% of the accounts they opened are attributed to agent banking.

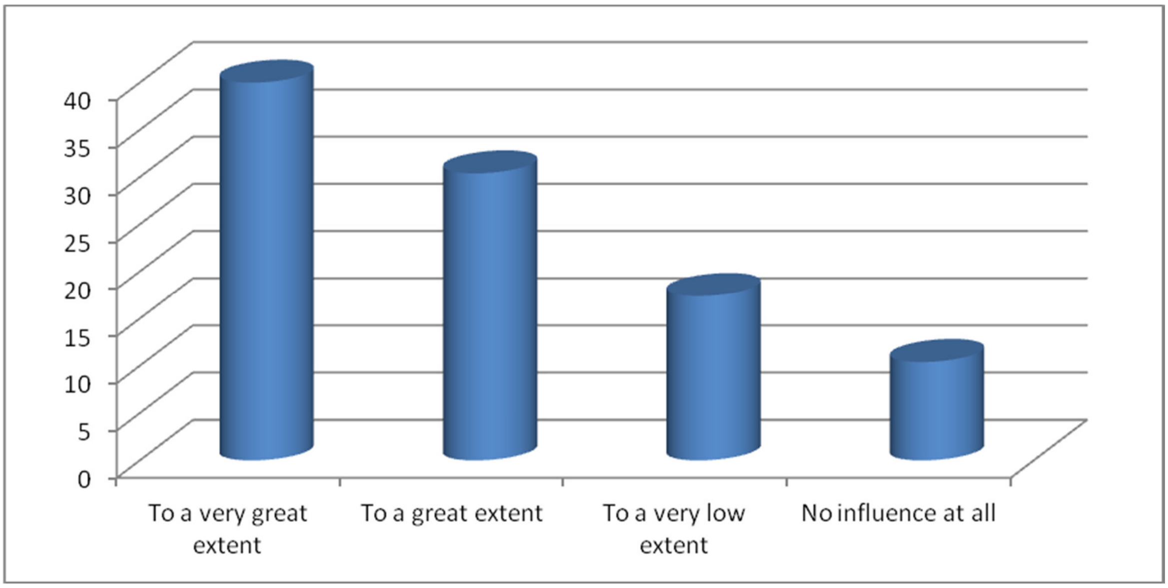



Graph 1: Number of accounts opened attributed to agency banking

### 4.2 Factors Influencing Agency Banking in Promoting Financial Inclusion

Literature identifies geographical location as one of the crucial factors that influence the promotion of financial inclusion. To assess the influence of agency banking on financial inclusion the respondents were asked to indicate the extent to which they agree that agency banking has improved the financial inclusion in Tanzania. Graph 2 below shows that most of the respondents agreed on this statement to a very great extent and at least 70% of the respondents agreed to a great extent with 40% indicating a very great extent while 30% indicated to a great extent

Results like this may partly support the great level of acceptance and development of agency banking in remote and rural areas of Tanzania.




Graph 2: The Influence of Agents Banking on Financial Inclusion

The respondents were also asked to indicate how much they agree that agency banking has reduced overcrowding in banking halls. Table 2 below shows that about 60% of the respondents have at least agreed that the agency banking has reduced the overcrowding at service point. Only about 15% of the respondents said the agency banking has not reduced the overcrowding in banking halls. The response of this kind may be expected to come from those agents who are operating in relatively urban areas with many bank service users contrary to those rural and remote outlets.

Table 2: The bank agency reduction of overcrowding in banking halls

| | | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Valid | Strongly Agree | 36.5 | 36.5 |
| | Agree | 23.5 | 60.0 |
| | Neutral | 24.3 | 84.3 |
| | Disagree | 9.6 | 93.9 |
| | Strongly Disagree | 6.1 | 100.0 |
| | Total | 100.0 | |

Respondents' views were also fetched to know whether geographical coverage of agents influence financial inclusion by ranking their level of agreement from *strongly agree* to *strongly disagree.*

Table 3 below shows that at about 60% of the respondents agree that geographical coverage of agents influence financial inclusion with only 24% disagreeing with the statement

Table 3: Influence of geographical coverage of agents on financial inclusion

| | | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Valid | Strongly agree | 37.4 | 37.4 |
| | Agree | 22.6 | 60.0 |
| | Neutral | 15.7 | 75.7 |
| | Disagree | 11.3 | 87.0 |
| | Strongly Disagree | 13.0 | 100.0 |
| | Total | 100.0 | |

From the results discussed above it is learnt that the geographical coverage of the agency banking has been appraised positively as one of the factors which bring closer financial services to the underserviced. This has been supported by Ivatury et al (2006) who said agency banking lowers transaction cost by bringing banking services home where customers can withdraw or deposit little amounts without incurring extra costs like transport to a bank branch, longer opening hours because this kind of businesses operate for longer hours than banks, shorter lines than in branches, more accessible for illiterates and the poor individuals who might feel intimidated in branches.

The second factor to be considered is the security concerns. The study aimed at scrutinizing the security issues of the bank agents by assessing the extent to which security concerns associated with agency banking affect financial inclusion. During the interview with bank branch managers they were asked whether the parent banks monitored the agents on daily, weekly or monthly basis. This question was asked to see how safe the operations of the bank agencies are for the customers' interests.

Findings from table 4 and chart 2 below show that there is a greater security as each agent has a manager who foresees his/her daily operations for about 56% of all cases and the monitoring of agency operation is done daily for about 57% of all the cases and at least for about 77% of all the cases on a weekly base. Therefore this shows that security measures adopted were effective in case of any security incidences.

Table 4 Manager (Agent Network Manager) to foresee operations of the agents

| | | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Valid | Yes | 56.5 | 56.5 |
| | No | 43.5 | 100.0 |
| | Total | 100.0 | |

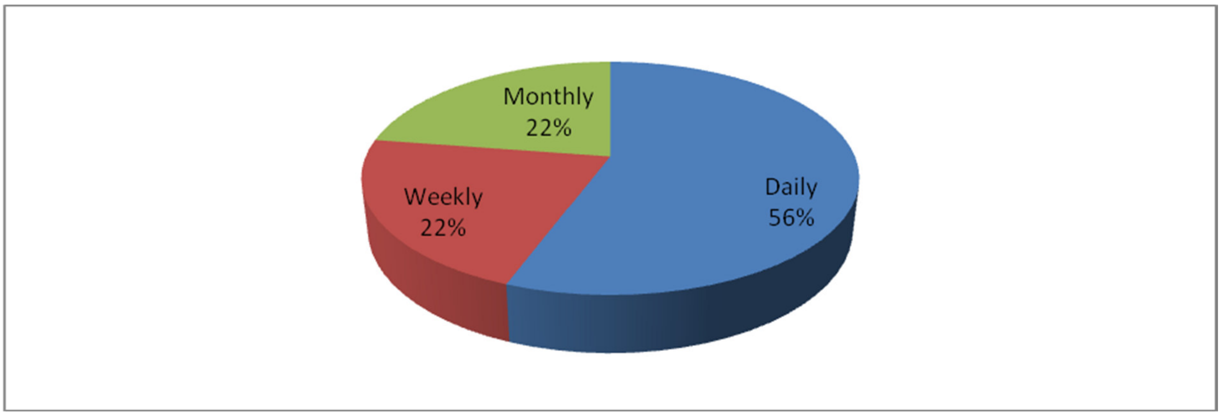



Chart 2: How often banking agency operations are monitored

Because the security is a key concern to customers, bank agents should receive regular trainings from parent banks in order to understand and keep up with the security standards as related to technological changes. To identify whether the bank agents are getting proper trainings on security issues a question was asked to know how often the agents are trained by the parent banks on security issues to ensure that they comply with the security standards. Findings in chart 3 below suggest that majority of the banks, about 60%, train their agents at least once in a year to ensure efficient compliance towards the regulation.

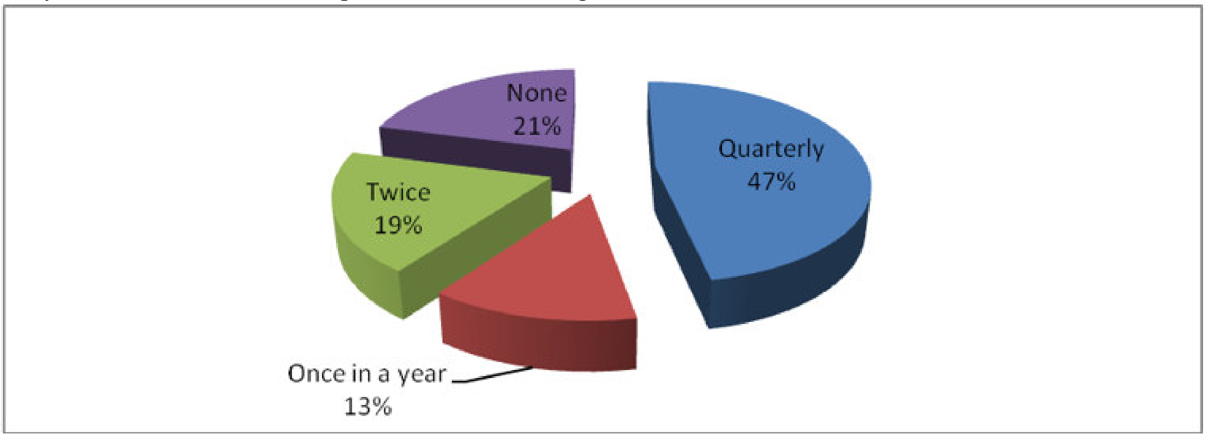



Chart 3: Training Frequency to agents to ensure security standards compliance

Findings presented in chart 4 also show that the safety, security and efficiency of the equipment used by bank agents are also monitored in 73% of all the cases at least on a weekly basis to ensure better security bridge.

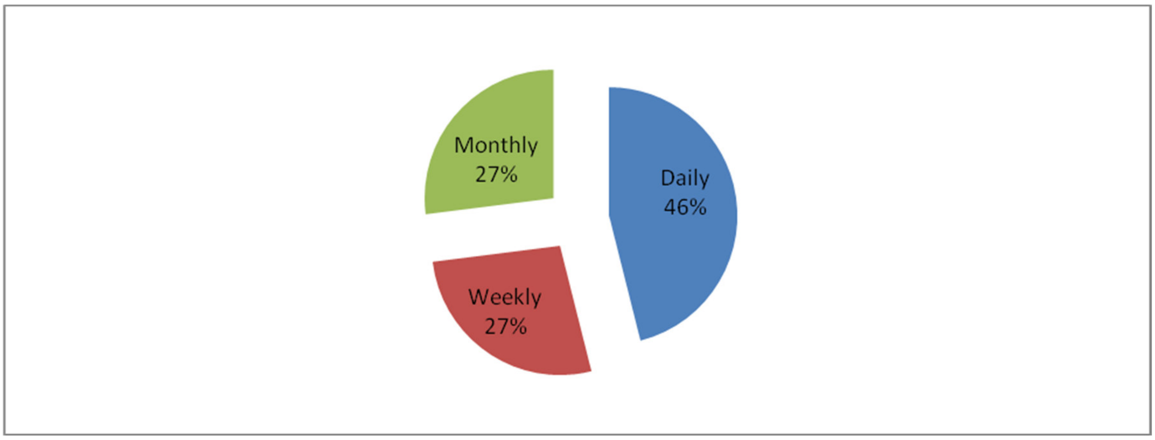



Chart 4: Security Monitoring of the equipment being used by agents

Since trust is the most necessary ingredient for growth of agency banking, appropriate consumer protection systems against risks of fraud, loss of privacy and loss of service should be put in place by institutions for purposes of establishing trust among consumers of agent banking services. Customer's response is a very crucial alert which play a greater role in improving financial services provision. The security issues in our study are not of a great concern because operators get security trainings and their operations and equipment are all monitored by agent network managers. If these security initiatives are not taken it would not be easy to quantify easily the damages and monitor behaviors of the agents as previously reflected by Tarazi (2010).

Findings from the interview with the bank managers also suggest that like any other banking activities, the major risk in conducting agency banking business is security in terms of collateral that may lead to default of customers who can be solved by proper screening and selection of the borrowers.

Another issue of concern is cost. The study intended to assess the impact of the costs of services at agency banking outlets on financial inclusion. Bank managers were asked to indicate the extent to which operational cost of agency banking affect the transaction cost of financial services through agents. Findings presented in table 5 suggest that about 66% of branch managers indicated that the costs of services at bank agents had an effect on financial inclusion. This can be attributed to the fact that some customers were willing to incur the extra cost to access services at agency banking outlets. These findings are in agreement with Musau (2013) who found that the cost of agent banking was an incentive for more customers to use agents.

Table 5: Operational cost of agency banking

| | | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Valid | To a very great extent | 46.1 | 46.1 |
| | To a great extent | 20.0 | 66.1 |
| | To a low extent | 14.8 | 80.9 |
| | No effect at all | 19.1 | 100 |
| | Total | 100 | |

During the interview with the bank branch managers it was realized that the initial costs of setting up a branch and running cost takes many years to be translated into profits hence limiting branch expansion. The managers insisted that the only alternative to serve large number of people is taking services closer to the people in areas with potentially less number and volume of transactions like in remote and rural areas via agency banking. This in turn will lead to increased customer base and thus the market share; increased coverage with low cost solution and increased revenue from improved indirect productivity by reducing congestion in existing branches. From these findings we may see that cost is a key obstacle to financial inclusion for both commercial banks and bank customers because banks incur significant cost in servicing low value accounts and extending banking infrastructures to underserved and low-income areas.

On the other hand bank customers incur cost in terms of direct expenses and time to access banking services in bank branches. Achieving financial inclusion, therefore, requires innovative business models that dramatically reduce costs for everyone and thus pave the way to profitable extension of financial services to the poor community.

Consistent to this study, AFI, (2012) also highlights higher transaction costs and infrastructural challenge such as lack of roads, fixed telephone lines, and ID systems, and insufficient information amongst both providers and consumers as the major obstacle of delivering small-scale financial services across large geographic distances.

In general concerning effect of costs of services in agency banking outlets on financial inclusion, the study found that costs of accessing services through agents is low compared to that of getting bank services at bank branches. Therefore, despite the charges of agent banking services customers prefer to use bank agents services regardless of the costs charged as long as it is cheaper than service from bank branches and easier to access.

The last factor examined in this study is the liquidity issues. The key concern in management of liquidity is the fact that liquidity is the heart of the banking business and this ultimately has effects on financial inclusion. This study intended to find out if the parent banks instituted correct monitoring mechanisms to agents to ensure sufficient liquidity which maintains easy and sufficient cash availability to the customer's needs. Findings from table 6 show that in 72 % of all cases parent banks ensure that their customers do not encounter cash shortages for withdrawal, deposits and loan enquiries.

Table 6: Monitoring of bank agents to ensure sufficient liquidity

| | | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Valid | Yes | 72.2 | 72.2 |
| | No | 27.0 | 99.1 |
| | not at all | 9 | 100.0 |
| | Total | 100.0 | |

When bank agents were asked to indicate how often they face liquidity challenges, when administering customers at that point of transaction, the results presented in table 7 shows that about 66% of the respondents said at least *often* with only 13% saying *never*. The interview with some of bank agents revealed that they experienced liquidity problems (shortage of cash) due to inadequate information of transactions by the subscribers at the time of withdrawals.

Table 7: Experience of Liquidity challenges of bank agents

| | | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Valid | very often | 34.8 | 34.8 |
| | Often | 31.3 | 66.1 |
| | Rarely | 20.9 | 87.0 |
| | Never | 13.0 | 100.0 |
| | Total | 100.0 | |

Furthermore, the bank branch managers were asked to rate the extent to which availability of liquidity affects financial inclusion. Findings from table 8 show that majority, about 75%, of all respondents indicated that availability of liquidity affected financial inclusion to at least a great extent.

Table 8: Effect of liquidity availability in agency outlets on financial inclusion

| | | Valid Percent | Cumulative Percent |
|---|---|---|---|
| Valid | to a very extent | 46.1 | 46.1 |
| | to a great extent | 28.7 | 74.8 |
| | to a low extent | 17.4 | 92.2 |
| | no effect at all | 7.8 | 100.0 |
| | **Total** | **100.0** | |

Interviews with some of them reveal that sometimes a subscriber comes with a large withdrawal demand which might not be available at that moment. This may lead to frustration and is one of the reasons why take-up of systems is slower than expectation. During discussion with bank agents it was also learnt that sometimes customers were willing to incur more cost if the bank agent had proven to be most liquid. Majority of the bank branch managers interviewed confirmed that their respective banks had put in place a monitoring system for agents to ensure that cash shortages rarely occurs.

Shortly concerning the effect on availability of liquidity in agent banking outlets on financial inclusion, the study found that parent banks have to dictate cash limits that the agents could hold and that there is a proper monitoring system for liquidity control so as to avoid perennial cash shortages at every banking outlet.

## 5. A concluding Remark

The aim of this study was to examine the determinants of bank agency which promote financial inclusion in Tanzania. More specifically, the paper evaluates the extent to which geographical coverage of agency banking; security concerns associated with agency banking, reduction of financial services costs and agency liquidity have facilitated the promotion of financial inclusion.

The study found that agency banking has helped to simplify banking service by reducing distance for customers to reach service point. The study has also found that liquidity problem is not a big concern as the agents' operation are properly scrutinized and monitored by the parent banks to avoid cash shortage crisis and minimizes security issues. It is also found in the study that agency banking costs are reported to be lower compared to those of traditional banking services.

It is therefore concluded, from this study, that greater geographical coverage brought about by agency banking is a stronger promoter of financial inclusion because services follow people closer to where they leave and hence reduce the travelling costs and other hassles involved like time tame wasted in long queues at bank branches. Agency banking model is therefore a success as regards to deepening financial inclusion.

However, because the concept of agency banking is now spreading all over the world as depicted by Afande and Mbugua (2015), banks' practice to risk management should be emphasized so as to avoid entering into agency contract with bank agents whose credentials are doubtful. Parent banks are also required to vet those individuals employed by the agents to undertake banking services on banks' behalf. Bank agents and the parent banks should also maintain a record of proper identification of such employees so as to hold them accountable in case of any fraud or misconduct.

In addition to that effort s have to be made to increase the number of outlets providing bank agency services so as a greater geographical coverage is achieved. Apart from that all commercial banks offering agency banking services should limit operational costs on bank agents so as to avoid the increase in cost of services to customers. Bank should observe this because the higher branch set-up cost is considered to be the limiting factor to extend the banking services to local people in areas where bank agents operate as previously shown by Celina, (2012) .Concerning security, emphasis should be put on all agency banking outlets and more frequent monitoring to be carried out as discussed in the previous section. Lastly, financial education should be provided to help customers understanding the operations of agents and assure the security of their money.

Future review should increase the sample size to check the robustness of this study and also the future study should see whether

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